

Message Text

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ACTION COME-00

INFO OCT-01 ARA-06 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

DODE-00 EB-07 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

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-----181632Z 081214 /42

R 181333Z JAN 77

FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC 3028

INFO USDEL MTN GENEVA

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E.O. 11652: N/A

TAGS: ETRD, MTN, UY

SUBJ: MTN: US NEGOTIATING OBJECTIVES

REF: (A) 76 STATE 308918, (B) 76 MONTEVIDEO A-83,
(C) 73 MONTEVIDEO A-006, (D) 76 MONTEVIDEO A-103

1. SUMMARY: COUNTRY TARIFF LINE STUDY OF WHAT CONCESSIONS
US SHOULD REQUEST FROM URUGUAY WILL BE DELAYED UNTIL EMBASSY
CAN ASSESS IMPLICATIONS OF RECENT TARIFF REFORM LAW. THE
VERY COMPLEXITY OF URUGUAY'S SYSTEM, ALONG WITH HIGH TARIFFS,
PROHIBITS MANY IMPORTS; BUT THE GOU IS ITSELF ALREADY IN
THE PROCESS OF REFORMING THE SYSTEM. OUR PRELIMINARY CON-
CLUSION IS THAT THE NATURE OF US-GOU TRADE IS SUCH THAT
SPECIFIC TARIFF CUTS WILL NOT BENEFIT US EXPORTS PARTICULARLY,
AND THAT CONTINUATION OF ONGOING GOU ECONOMIC REFORM PROGRAM
WILL PROVIDE GREATEST OPPORTUNITIES FOR INCREASED TRADE.
END SUMMARY.

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2. TARIFF REFORM BILL DESCRIBED REF (B) HAS JUST
BEEN APPROVED BY GOU. IMPLEMENTATION IS EXPECTED TO
TAKE SEVERAL MONTHS AT LEAST, AND PROBABLY MUCH MORE
TIME. THE NEW LAW WILL HELP TO MODERNIZE THE IMPORT
SYSTEM AND, THIS ITSELF IS AN IMPROVEMENT. INITIALLY,
HOWEVER, NEW TARIFFS ARE EXPECTED TO BE SET AT LEVELS
SIMILAR TO THOSE PRESENTLY IN FORCE. THE EMBASSY STUDY

OF MAJOR US IMPORTS AND THEIR TARIFF LEVELS WILL BE REVISED AS INFORMATION DEVELOPS AND SUBMITTED BY AIRGRAM, ALONG WITH SPECIFIC RECOMMENDATIONS. IN THE INTERIM, THE FOLLOWING OBSERVATIONS OF URUGUAY'S TRADE REGIME IS SUBMITTED FOR COUNTRY PROFILE.

3. IN SPITE OF GOU GRATIFICATION OVER RESULTS OF GSP IN 1976, THE RECENT INTERNATIONAL TRADE COMMISSION (ITC) RECOMMENDATIONS REGARDING SHOE IMPORTS WILL MAKE IT MORE DIFFICULT FOR URUGUAY TO GRANT RECIPROCAL CONCESSIONS TO THE US. DEBATE OVER THE ITC REPORT WILL CONTINUE UNTIL A PRESIDENTIAL DECISION AND AFTERWARDS IF THE GOU BELIEVES URUGUAY HAS BEEN DISCRIMINATED AGAINST IN WHATEVER SYSTEM OF RESTRICTION IS IMPOSED.

4. MAJOR URUGUAYAN EXPORTS TO THE US ALREADY BENEFIT FROM THE GSP. THE MOST IMPORTANT REMAINING EXPORTS ARE EXCLUDED FROM SIGNIFICANT BARGAINING AT MTN FOR ONE REASON OR ANOTHER (E.G., FRESH MEAT, TEXTILES AND SHOES). BECAUSE OF THIS SITUATION, THE ITC RECOMMENDATION REMOVES INCENTIVE FOR GOU TO NEGOTIATE ON WHAT FEW PRODUCTS IT CAN HOPE TO EXPORT TO THE US OUTSIDE OF GSP.

5. FOREGOING DOES NOT MEAN THAT GOU WILL NOT PLAY A CONSTRUCTIVE AND RESPONSIBLE ROLE AT MTN. ITS RECORD AT OTHER INTERNATIONAL CONFERENCES AND THE ABILITY OF ITS AMBASSADOR IN GENEVA ARGUE FOR ACTIVE PARTICIPATION BY URUGUAY.

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6. URUGUAY'S CURRENT SYSTEM OF IMPORT REGULATIONS IS COMPLICATED AND DIFFICULT TO DESCRIBE SUCCINCTLY. WHILE INFORMATION PROVIDED REF (C) IS IN SOME CASES NO LONGER CURRENT, IT REMAINS BY AND LARGE AN ACCURATE DESCRIPTION OF THE PROCESS ITSELF. THERE ARE STILL NUMEROUS DUTIES, TAXES, FEES AND SURCHARGES. THE NEW TARIFF BILL WILL HELP SOMEWHAT BUT THE SYSTEM'S COMPLEXITY WILL CONTINUE TO ACT AS AN IMPLICIT NON-TARIFF BARRIER TO TRADE AFFECTING IMPORTS FROM ALL COUNTRIES. THE COMBINED EFFECTS OF THE TARIFFS, PORT FEES, SPECIAL 18 PERCENT IMPORT TAX, 7 PERCENT ADDITIONAL TAX AND MISCELLANEOUS SURCHARGES, HANDLING FEES (INCLUDING A 4 PERCENT CONSULAR FEE PAID BY THE IMPORTER) HAVE CREATED EFFECTIVE RATES RANGING FROM 10 PERCENT TO WELL OVER 300 PERCENT OF C.I.F. VALUE. THIS SYSTEM IS THE RESULT OF A GRADUAL, AD HOC PROCESS GOING BACK SEVERAL DECADES AND RESPONDING TO THE NEEDS OF OVER A HALF DOZEN AGENCIES PURSUING DIFFERING OBJECTIVES SUCH AS PROTECTION OF DOMESTIC INDUSTRY, ACHIEVEMENT OF A BALANCED TRADE ACCOUNT, COLLECTION OF FISCAL REVENUES AND SOCIAL SECURITY

FUDNING. THIS COMPLEX SYSTEM IS FURTHER COMPLICATED BY THE LARGE NUMBER OF EXCEPTIONS IN WHICH TARIFFS ARE REDUCED OR ELIMINATED, FOR ONE REASON OR ANOTHER. PARADOXICALLY, THE REVENUES ACTUALLY DERIVED FROM THE SYSTEM REPRESENTS ONLY A SMALL PERCENTAGE OF THE TOTAL VALUE OF IMPORTS (7 PERCENT IN 1974). IN EFFECT, THE HIGH TARIFFS ARE PROHIBITIVE AND COLLECTIONS ARE MADE ONLY ON THOSE GOODS WITH LOWER TARIFFS.

7. US GOODS WHICH ARE SOLD HERE NOW HAVE SUCCESSFULLY HURDLED A VARIETY OF IMPORTS CONTROL MEASURES. THESE MAJOR GOODS NOW SOLD (CHEMICALS, MACHINERY, FERTILIZER, SYNTHETIC FIBERS) DO SO BECAUSE URUGUAY CANNOT PRODUCE THEM ITSELF. WE ALREADY SELL SUCCESSFULLY IN COMPETITION WITH ARGENTINA, BRAZIL, THE EEC AND JAPAN BECAUSE OF BETTER PRICE, QUALITY OR SERVICE, ALTHOUGH SALES HAVE ALSO BEEN LOST BECAUSE OF DIFFICULTY IN OBTAINING EXPORT CREDITS SUCH AS ARE OFFERED LIMITED OFFICIAL USE

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BY MANY OTHERS. THE TREND, NEVERTHELESS, IS TOWARD INCREASING ARGENTINE AND BRAZILIAN SHARE IN THIS MARKET BECAUSE OF GEOGRAPHICAL PROXIMITY, CULTURAL TIES, BILATERAL TRADE AGREEMENTS AND FAVORABLE EXPORT FINANCING. FOR GOU REGIONAL TRADE TIES, SEE ANALYSIS IN REF (D). THERE ARE NO STATE TRADING PRACTICES WHICH DISCRIMINATE AGAINST US PRODUCTS.

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FM AMEMBASSY MONTEVIDEO

TOMRUEHC/SECSTATE WASHDC 3029

INFO USDEL MTN GENEVA

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8. URUGUAYAN DELEGATION AT MTN CAN CORRECTLY POINT TO REFORM MEASURES SUCH AS VIRTUAL ABOLITION OF THE CONSULAR INVOICE, SOME RATIONALIZATION OF PAPERWORK, ABOLITION OF THE PRIOR DEPOSIT SYSTEM, IMPORT QUOTAS AND 180-DAY FINANCING REQUIREMENTS, AS WELL AS THE NEW TARIFF BILL, AS RECENT NON-TARIFF MEASURES CONTRIBUTING TO MTN GOALS. CONTINUING RATIONALIZATION OF THE COUNTRY'S IMPORT DUTY SYSTEM WAS ENDORSED AT A RECENT HIGH-LEVEL GOVERNMENT MEETING AND (AN AID FINANCED) STUDY FOR THE GOU IS NOW UNDER WAY ON IMPLICATIONS OF TARIFF REDUCTION. GROWTH OF URUGUAY'S EXPORTS WILL REQUIRE REPLACEMENT AND MODERNIZATION OF MUCH OF THE COUNTRY'S OUTMODED CAPITAL STOCK. NEVERTHELESS, THE GOU RECOGNIZES THAT A RAPID DROP IN PROTECTION LEVELS COULD CAUSE SERIOUS PROBLEMS AMONG EXISTING INDUSTRIES. THE MOST RECENT WORLD BANK REPORT RECOMMENDED A POLICY OF COMBINATION OF THE MANY IMPORT TAXES INTO ONE (PARTIALLY ACCOMPLISHED), A REDUCTION OF OVERALL DUTY LEVELS AND, FOR LUXURY GOODS, THE REPLACEMENT OF PROHIBITIVE DUTIES WITH EXCISE TAXES. SUCH A POLICY IS IN THE GOU'S OWN INTEREST, ACCORDING TO ITS ALREADY ANNOUNCED PLANS, AND ALSO APPEARS TO BE IN US INTEREST. EMBASSY UNDERSTANDS THAT GOU IS QUIETLY STUDYING SUCH ACTIONS FOR IMPLEMENTATION OF THE NEW TARIFF BILL. A RATIONALIZATION OF IMPORT DUTIES WILL BY AND OF ITSELF BRING ABOUT MORE TRADE OPPORTUNITIES THAN ANY SPECIFIC CUTS.

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9. IN CONCLUSION, EMBASSY BELIEVES THAT US CAN REQUEST VERY LITTLE IN SPECIFIC TERMS FROM GOU AT MTN, BUT THAT CONTINUATION OF ECONOMIC REFORM PROGRAM (WITH US ENCOURAGEMENT) PROVIDES THE BEST OPPORTUNITY FOR ACHIEVING THE US GOAL OF EXPANDING TRADE OPPORTUNITIES IN URUGUAY. THE EMBASSY WILL REPORT ASAP ON GOU'S OWN SPECIFIC MTN OBJECTIVES.

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